

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Pennfield Schools	County Calhoun
Fiscal Year End June 30, 2006	Opinion Date October 6, 2006	Date Audit Report Submitted to State December 5, 2006	

We affirm that:

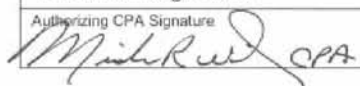
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments and recommendations	
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit Reports	
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.		Telephone Number 269-651-3228	
Street Address 127 W. Chicago Road		City Sturgis	State MI
Authorizing CPA Signature 		Printed Name Michael R. Wilson	License Number 1101017570

PENNFIELD SCHOOLS
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2006

Pennfield Schools

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Pennfield Schools, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pennfield Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pennfield Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pennfield Schools as of June 30, 2006, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The administration's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Pennfield Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pennfield Schools basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006, on our consideration of Pennfield School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Norman J. Paulson, P.C.

October 6, 2006

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS
YEAR ENDED June 30, 2006

This section of Pennfield Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Pennfield Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, the 2004 Capital Projects Fund, and the Debt Service Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statement

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2006

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2006

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006 and 2005:

TABLE I	June 30	
	<u>2006</u>	<u>2005</u>
Assets		
Current and other assets	\$ 22,184,887	\$ 31,310,148
Capital assets and bond fees - Net of accumulated depreciation/amortization	<u>23,054,826</u>	<u>12,734,892</u>
Total assets	45,239,713	44,045,040
Liabilities		
Current liabilities	3,033,763	2,840,957
Long-term liabilities	<u>35,839,514</u>	<u>35,882,631</u>
Total liabilities	38,873,277	38,723,588
Net Assets		
Invested in property and equipment - net of related debt	3,020,920	2,279,184
Restricted for debt service	99,305	148,807
Unrestricted	<u>3,246,211</u>	<u>2,893,461</u>
Total net assets	<u>\$ 6,366,436</u>	<u>\$ 5,321,452</u>

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2006

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$6,366,436 at June 30, 2006. Capital assets, net of related debt totaling \$3,020,920 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$3,246,211 was unrestricted.

The \$3,246,211 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2006 and 2005.

TABLE 2

	Year Ended June 30,	
	<u>2006</u>	<u>2005</u>
Revenue		
Program revenue:		
Charges for services	\$ 348,501	\$ 355,062
Grants and catagoricals	1,760,231	1,784,223
General revenue:		
Property taxes - general	878,645	866,725
Property taxes - debt service	1,619,229	1,557,596
State foundation allowance	12,251,203	11,632,247
Interest income and other	<u>1,210,368</u>	<u>232,985</u>
Total revenue	18,068,177	16,428,838

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2006

Function/Program Expenses

	Year Ended June 30,	
	2006	2005
Instruction	\$ 8,691,952	\$ 8,366,674
Support services	4,847,609	4,888,692
Food services	586,172	507,951
Athletics	544,328	482,728
Interest on long-term debt	1,705,420	1,599,879
Depreciation (unallocated)	<u>647,712</u>	<u>683,063</u>
Total expenses	<u>17,023,193</u>	<u>16,528,987</u>
Increase (decrease) in net assets	<u>\$ 1,044,984</u>	<u>\$ (100,149)</u>

As reported in the statement of activities, the cost of all governmental activities this year was \$17,023,193. Certain activities were partially funded from those who benefited from the programs \$(348,501) or by other governments and organizations that subsidized certain programs with grants and categoricals \$(1,760,231). We paid for the remaining "public benefit" portion of our governmental activities with \$2,497,874 in taxes, \$12,251,203 in State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$1,044,984. Key reasons for the change in net assets were an increase in the state foundation allowance revenue due to an increase in students and interest earned on capital project investments. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 16.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted sources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2006

As the School District completed this year, the governmental funds reported a combined fund balance of \$20,125,999, which is a decrease of \$9,330,230 from last year. In the General Fund, our principal operating fund, the fund balance increased \$372,759 to \$3,155,682. The General Fund fund balance has been reserved for prepaid expenditures - \$37,137; reserved for inventory - \$14,309; designated for future projects - \$1,776,614; and undesignated - \$1,327,622. In the Capital Projects Fund the fund balance decreased from \$26,363,936 to \$16,235,524. This was the result of a voter approved \$27,915,000 bond issue less bond costs and construction in progress costs incurred through June 30, 2006. The purpose of the Capital Projects Fund is to continue to spend the fund balance to complete the voter approved purpose of erecting, furnishing and equipping a new high school, including an auditorium; acquiring and installing education technology; developing and improving athletic/practice fields and the site; and to pay the costs of issuing the Bonds. In the Debt Service Fund the fund balance decreased \$49,502 to \$99,305. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund balance is reserved since it can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Budgeted revenues were increased \$366,983, to better reflect state per student foundation funding and adjustments to categorical funding and a reduction in the interdistrict special education reimbursement.

Budgeted expenditures were increased \$349,677 to account primarily for salary increases not negotiated/budgeted for in the original budget; the addition of a nursing service, tax tribunal corrections; and sick leave payoffs.

Actual revenues were within \$2,448 of final budgeted revenues or .02% which is immaterial.

Actual expenditures ended the year under the final budget by \$440,449 or 3.1%. This was primarily the result of cost savings plans implemented during the year and capital outlay projects postponed until next year.

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED June 30, 2006

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the School District had \$30,478,418 invested in a broad range of capital assets, including land, buildings and improvements, furniture and equipment, and buses and other vehicles. This amount represents a net increase (including additions and disposals) of \$10,984,237, or 56 percent, from last year. The majority of this increase was construction in progress - \$10,733,197, funded out of the Capital Projects Fund.

	<u>2006</u>	<u>2005</u>
Land	\$ 726,135	\$ 726,135
Buildings and improvements	13,521,896	13,469,091
Buses and other vehicles	1,365,016	1,305,667
Furniture and equipment	2,830,315	2,691,429
Construction in progress	<u>12,035,056</u>	<u>1,301,859</u>
 Total capital assets	 30,478,418	 19,494,181
 Less accumulated depreciation	 <u>7,864,407</u>	 <u>7,216,695</u>
 Net capital assets	 <u><u>\$ 22,614,011</u></u>	 <u><u>\$ 12,277,486</u></u>

Debt

At the end of this year, the School District had \$36,478,091 in bonds and Michigan School Bond Loan proceeds outstanding versus \$36,542,206 in the previous year - a decrease of \$64,115. This change was the result of proceeds from the Michigan School Bond Loan program of \$739,734 to make scheduled bond payments. Debt reductions including principal payments amounted to \$803,849.

	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$ 35,265,580	\$ 36,069,429
Michigan School Bond Loan	<u>1,212,511</u>	<u>472,777</u>
	<u><u>\$ 36,478,091</u></u>	<u><u>\$ 36,542,206</u></u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

PENNFIELD SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued)
YEAR ENDED June 30, 2006

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following areas that could have a major impact on the 2007 fiscal year, and the near future.

The State of Michigan has finalized the student foundation allowance for 2006/07. The amount \$7,105 per student represents a 3.3% increase over the 2005/06 per student allowance of \$6,875. Because of the unstable economy still existing in the State, there is a question if this amount can be fully funded, just as it has not been fully funded in two of the last three years.

District pension costs are rising at a rapid rate. An increase from 16.34% to 17.74% of payroll will require an increase in over \$165,000 in pension expense from the fiscal 2006 budget. Expectations are that fiscal 2007 may require double that amount. Wages and benefits are expected to increase by at least 5%.

Capital expenditures are another area that is expected to impact the 2006/07 fiscal year. As the capital project from the 2004 bond issue is completed, it is expected that approximately \$200,000 will be spent from the general fund for additional equipment and renovations.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 8587 Q Drive North, Battle Creek, Michigan 49017.

PENNFIELD SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 8,807,856
Investments	10,588,174
Accounts receivable	192,290
Taxes receivable (net)	-
Due from other governmental units	2,534,698
Prepaid expenses	37,137
Inventories	<u>24,732</u>
Total current assets	22,184,887
Noncurrent Assets:	
Capital assets	30,478,418
Less: accumulated depreciation	<u>7,864,407</u>
Net capital assets	22,614,011
Capitalized bond fees	471,361
Less: accumulated amortization	<u>30,546</u>
Net capitalized bond fees	<u>440,815</u>
Total noncurrent assets	<u>23,054,826</u>
Total assets	45,239,713
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	1,178,469
Accrued payroll	589,426
Accrued benefits	273,312
Accrued interest	178,874
Deferred revenue	17,681
Notes payable, due within one year	10,000
Bonds payable, due within one year	<u>786,001</u>
Total current liabilities	3,033,763
Noncurrent Liabilities:	
Other obligations	306,900
School bond loan	1,212,511
Notes payable	10,000
Bonds payable	<u>34,310,103</u>
Total noncurrent liabilities	<u>35,839,514</u>
Total liabilities	38,873,277
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	3,020,920
Restricted for debt service	99,305
Unrestricted	<u>3,246,211</u>
Total net assets	<u>\$ 6,366,436</u>

See Notes to Financial Statements

PENNFIELD SCHOOLS

STATEMENT OF ACTIVITIES
YEAR ENDED June 30, 2006

Functions/Programs	<u>Program Revenues</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants/</u>	<u>Net (Expense)</u>
			<u>Contributions</u>	<u>Revenue and</u>
				<u>Changes in Net</u>
				<u>Assets</u>
Governmental activities:				
Instruction	\$ 8,691,952	\$ 1,170	\$ 1,459,342	\$ (7,231,440)
Support services	4,847,609	-	-	(4,847,609)
Food services	586,172	278,791	285,757	(21,624)
Athletics	544,328	68,540	-	(475,788)
Interest on long-term debt 1,705,420	-	15,132	(1,690,288)	
Depreciation (unallocated)	<u>647,712</u>	<u>-</u>	<u>-</u>	<u>(647,712)</u>
Total Governmental activities	<u>\$ 17,023,193</u>	<u>\$ 348,501</u>	<u>\$ 1,760,231</u>	(14,914,461)
General revenues:				
Taxes				
Property taxes, levied for general operations				878,645
Property taxes, levied for debt service				1,619,229
State aid not restricted to specific purposes				12,251,203
Interest and investment earnings				1,188,314
Other				<u>22,054</u>
Total general revenues				<u>15,959,445</u>
Change in Net Assets				1,044,984
Net Assets - Beginning of year				<u>5,321,452</u>
Net Assets - End of year				<u>\$ 6,366,436</u>

See Notes to Financial Statements

PENNFIELD SCHOOLS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	<u>General</u>	<u>2004 Capital Projects</u>	<u>Debt Service</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,406,347	\$ 7,158,703	\$ 113,661
Investments	-	10,588,174	-
Accounts receivable	37,290	155,000	-
Due from other governmental units	2,534,698	-	-
Due from other funds	160,636	4,328	47
Prepaid expenditures	37,137	-	-
Inventories	<u>14,309</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 4,190,417</u>	<u>\$17,906,205</u>	<u>\$ 113,708</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 72,441	\$ 1,106,028	\$ -
Accrued payroll	589,426	-	-
Accrued benefits	273,312	-	-
Due to other funds	81,875	64,653	14,403
Deferred revenue	<u>17,681</u>	<u>-</u>	<u>-</u>
Total liabilities	1,034,735	1,170,681	14,403
Fund Balances:			
Reserved:			
Prepaid expenditures	37,137	-	-
Inventories	14,309	-	-
Debt service	-	-	99,305
Capital projects	-	16,735,524	-
Unreserved:			
Designated for future projects	1,776,614	-	-
Undesignated	<u>1,327,622</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>3,155,682</u>	<u>16,735,524</u>	<u>99,305</u>
Total liabilities and fund balances	<u>\$ 4,190,417</u>	<u>\$17,906,205</u>	<u>\$ 113,708</u>

See Notes to Financial Statements

Other Non-Major Governmental Funds	Total
\$ 129,145	\$ 8,807,856
-	10,588,174
-	192,290
-	2,534,698
77,500	242,511
	37,137
<u>10,423</u>	<u>24,732</u>
<u>\$ 217,068</u>	<u>\$ 22,427,398</u>

\$ -	\$ 1,178,469
-	589,426
-	273,312
81,580	242,511
<u>-</u>	<u>17,681</u>
81,580	2,301,399

-	37,137
10,423	24,732
-	99,305
-	16,735,524
-	1,776,614
<u>125,065</u>	<u>1,452,687</u>
<u>135,488</u>	<u>20,125,999</u>
<u>\$ 217,068</u>	<u>\$ 22,427,398</u>

PENNFIELD SCHOOLS

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total Fund Balances - Governmental Funds \$ 20,125,999

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the funds.

The cost of the capital assets is 30,478,418

Accumulated depreciation is (7,864,407)

Total 22,614,011

Bond issuance costs are not included as an asset
in governmental activities 471,361

Accumulated amortization (30,546)

Total 440,815

Long-term liabilities are not due and payable in the
current period and are not reported in the funds:

Other obligations (306,900)

Notes payable (20,000)

Bonds payable (35,096,104)

School bond loan payable (1,212,511)

Accrued interest payable on long-term liabilities is not
included as a liability in governmental activities (178,874)

Net assets of governmental activities \$ 6,366,436

See Notes to Financial Statements

PENNFIELD SCHOOLS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED June 30, 2006

	<u>General</u>	<u>2004 Capital Projects</u>	<u>Debt Service</u>
Revenues:			
Local sources	\$ 958,324	\$ 1,119,200	\$1,631,888
State sources	12,875,275	-	48,981
Federal sources	260,571	-	-
Interdistrict	<u>540,850</u>	<u>-</u>	<u>-</u>
Total revenues	14,635,020	1,119,200	1,680,869
Expenditures:			
Instruction	8,678,802	-	-
Supporting services	5,039,338	-	-
Food service	-	-	-
Athletics	-	-	-
Capital outlay	-	10,747,612	-
Debt Service			
Principal repayment	26,000	-	803,849
Interest and fiscal charges	888	-	1,666,256
Interdistrict	<u>44,896</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>13,789,924</u>	<u>10,747,612</u>	<u>2,470,105</u>
Excess (deficiency) of revenues over expenditures	845,096	(9,628,412)	(789,236)
Other financing sources (uses):			
Proceeds from school bond loan fund	-	-	739,734
Operating transfers in	-	-	-
Operating transfers out	<u>(472,337)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(472,337)</u>	<u>-</u>	<u>739,734</u>
Net change in fund balances	372,759	(9,628,412)	(49,502)
Fund balances, July 1	<u>2,782,923</u>	<u>26,363,936</u>	<u>148,807</u>
Fund balances, June 30	<u>\$ 3,155,682</u>	<u>\$16,735,524</u>	<u>\$ 99,305</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Total
\$ 347,331	\$ 4,056,743
25,192	12,949,448
260,565	521,136
-	540,850
633,088	18,068,177
-	8,678,802
-	5,039,338
586,172	586,172
544,328	544,328
-	10,747,612
-	829,849
-	1,667,144
-	44,896
<u>1,130,500</u>	<u>28,138,141</u>
(497,412)	(10,069,964)
-	739,734
472,337	472,337
-	(472,337)
<u>472,337</u>	<u>739,734</u>
(25,075)	(9,330,230)
<u>160,563</u>	<u>29,456,229</u>
<u>\$ 135,488</u>	<u>\$ 20,125,999</u>

PENNFIELD SCHOOLS
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

Student
Activities
Agency Fund

ASSETS

Cash and cash equivalents

\$ 220,792

LIABILITIES

Due to student groups

\$ 220,792

See Notes to Financial Statements

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Pennfield Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the district does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customer or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The school district reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The 2004 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Debt Service Fund is used to record tax, interest, other revenue for payment, principle and other expenditures on the bond issues.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Compensated Absences - The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School district did not have significant expenditure budget variances.

Capital Projects Fund Compliance - The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of 1351a of the State of Michigan's School Code.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 - CASH AND CASH EQUIVALENTS

The School District's cash and cash equivalents at June 30, 2006, are composed of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Deposits	<u>\$ 8,807,856</u>	<u>\$ 220,792</u>	<u>\$ 9,028,648</u>

Deposits consist of checking, savings, and bank municipal investment funds. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$9,469,902. Of that amount, \$99,646 was covered by federal depository insurance coverage or secured and \$-0- was uninsured and uncollateralized. The balance of \$9,370,256 was invested in bank municipal investment funds which are not categorized by risk.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - INVESTMENTS

The School District is authorized by Michigan Public Act 132 of 1986 and School Board policy to invest surplus monies in U.S. bonds and notes, highly rated commercial paper, bankers' acceptances, and mutual funds or investment pools that are composed of authorized investment vehicles.

The School District's investments at June 30, 2006 from the issuance of bonds had a carrying and market value of \$10,588,174. Monies are being held in an escrow account with a local bank for capital fund expenditures. The monies consist of government money market funds and U.S. government and bonds issued by Federal agencies.

Investments are normally categorized to give an indication of the level of risk assumed by the School District; however, bank investment pools and interlocal agreement investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue include unearned grant and categorical aid payments received prior to meeting all eligibility requirements in the amount of \$17,681.

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>June 30, 2006</u>
Assets not being depreciated - Land	\$ 726,135	\$ -	\$ -	\$ 726,135
Capital assets being depreciated:				
Buildings and building improvements	13,469,091	52,805	-	13,521,896
Buses and other vehicles	1,305,667	59,349	-	1,365,016
Furniture and equipment	2,691,429	138,886	-	2,830,315
Construction in progress	<u>1,301,859</u>	<u>10,733,197</u>	<u>-</u>	<u>12,035,056</u>
Subtotal	18,768,046	10,984,237		29,752,283
Accumulated depreciation:				
Buildings and building improvements	4,591,223	354,078	-	4,945,301
Buses and other vehicles	1,092,865	37,007	-	1,129,872
Furniture and equipment	<u>1,532,607</u>	<u>256,627</u>	<u>-</u>	<u>1,789,234</u>
Subtotal	<u>7,216,695</u>	<u>647,712</u>	<u>-</u>	<u>7,864,407</u>
Net capital assets being depreciated	<u>11,551,351</u>			<u>21,887,876</u>
Net capital assets	<u>\$ 12,277,486</u>			<u>\$ 22,614,011</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

The School District has active construction projects at year end. These construction projects are being completed from funds received by the \$27,915,000 2004 Building and Site Bond Issue. The District's cumulative expenditures at June 30, 2006 from the bond issue amounted to \$12,468,109.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds:		
General Fund	2004 Capital Projects Fund	\$ 64,653
General Fund	Debt Fund	14,403
General Fund	Other governmental funds	81,580
Debt Fund	General Fund	47
2004 Capital Projects Fund	General Fund	4,328
Other governmental funds	General Fund	<u>77,500</u>
		<u>\$ 242,511</u>
Interfund Transfers:		
	Transfer Out:	
	General Fund	
Transfer in:		
Other governmental funds	<u>\$ 472,337</u>	

NOTE 8 - LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Other long-term obligations include compensated absences.

Long-term obligation activity can be summarized as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds	\$36,069,429	\$ -	\$ 803,849	\$35,265,580	<u>\$ 842,493</u>
Notes	46,000	-	26,000	20,000	<u>\$ 10,000</u>
Deposits with escrow agents	(225,968)	-	(56,492)	(169,476)	<u>\$ (56,492)</u>
School bond loan	472,777	739,734	-	1,212,511	<u>\$ -</u>
Other Obligations	<u>293,750</u>	<u>39,050</u>	<u>25,900</u>	<u>306,900</u>	<u>\$ -</u>
Totals	<u>\$36,655,988</u>	<u>\$ 778,784</u>	<u>\$ 799,257</u>	<u>\$36,635,515</u>	

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 8 - LONG-TERM DEBT - (Continued)

The annual requirement to service the bonds and notes outstanding to maturity, including both principal and interest, are as follows:

Year ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 796,001	\$ 1,653,789	\$ 2,449,790
2008	826,360	1,620,383	2,446,743
2009	866,734	1,586,058	2,452,792
2010	973,617	1,491,837	2,465,454
2011	994,028	1,452,464	2,446,492
Thereafter	<u>30,659,364</u>	<u>34,981,072</u>	<u>65,640,436</u>
	<u>\$35,116,104</u>	<u>\$42,785,603</u>	<u>\$77,901,707</u>

Governmental Activities:

General obligation bonds consist of:

\$9,105,000 2000 School Building and
Site bonds due in annual installments of
\$270,000 to \$400,000 through May 1, 2010;
interest from 5.00% to 5.125% \$ 1,600,000

\$147,808 1998 School Improvement Bond
(Durant Settlement) the annual principal
and interest payments are to be paid
directly by the State of Michigan 60,580

\$27,915,000 2004 School Building and Site
Fund Bonds due in annual installments of
\$350,000 to \$1,400,000 through May 2034;
interest from 2.50% to 5.0% 27,300,000

\$6,340,000 2005 Refunding Bonds due in annual
installments of \$35,000 to \$410,000 through
May 2025; interest from 3.0% to 4.45% 6,305,000

Total bonds payable \$ 35,265,580

Notes payable consist of:

Land contract payable to non-profit organization,
annual payments of \$10,000 through 2008, plus
interest at -0-%, secured by real estate \$ 20,000

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 8 - LONG-TERM DEBT - (Continued)

Other governmental activity long-term obligations include:

Employee compensated absences	<u>\$ 306,900</u>
-------------------------------	-------------------

School Bond Loan - The school bond loan payable represent notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Borrowings by the School District from the School Bond Loan Fund totaled \$1,212,511 at the year ended June 30, 2006. Interest expense totaling \$25,871 at an interest rate of 3.125%, has been assessed for the year ended June 30, 2006. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 13 mills or such lower millage as prescribed by law. The School District is required to levy the aforementioned mills and repay to the State any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above amortization schedule.

PENNFIELD SCHOOLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical claims for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10- DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effect of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2006, 2005, and 2004 were \$1,434,851, \$1,239,914, and \$1,110,060.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

REQUIRED SUPPLEMENTAL INFORMATION

PENNFIELD SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED June 30, 2006

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues:				
Local sources	\$ 961,255	\$ 929,298	\$ 958,324	\$ 29,026
State sources	12,452,503	12,868,341	12,875,275	6,934
Federal sources	233,831	248,971	260,571	11,600
Interdistrict	<u>618,000</u>	<u>585,962</u>	<u>540,850</u>	<u>(45,112)</u>
Total revenue	14,265,589	14,632,572	14,635,020	2,448
Expenditures:				
Instruction:				
Basic programs	7,289,444	7,579,390	7,487,304	(92,086)
Added needs	1,237,153	1,214,521	1,191,498	(23,023)
Support services:				
Pupil	465,141	481,888	485,133	3,245
Instructional staff	934,049	887,622	839,533	(48,089)
General administration	302,326	275,822	236,763	(39,059)
School administration	1,201,555	1,249,221	1,148,032	(101,189)
Business services	204,650	242,929	246,063	3,134
Operations and maintenance	1,270,223	1,307,528	1,209,752	(97,776)
Transportation	768,868	879,287	847,153	(32,134)
Other	30,000	30,000	26,909	(3,091)
Debt service	31,699	37,269	26,888	(10,381)
Interdistrict	<u>145,588</u>	<u>44,896</u>	<u>44,896</u>	<u>-</u>
Total expenditures	<u>13,880,696</u>	<u>14,230,373</u>	<u>13,789,924</u>	<u>(440,449)</u>
Excess (deficiency) of revenues over expenditures	384,893	402,199	845,096	442,897
Other financing sources (uses):				
Operating transfers out	<u>(432,341)</u>	<u>(472,341)</u>	<u>(472,337)</u>	<u>(4)</u>
Total other financing sources (uses)	<u>(432,341)</u>	<u>(472,341)</u>	<u>(472,337)</u>	<u>(4)</u>
Net change in fund balance	(47,448)	(70,142)	372,759	442,901
Fund balance, July 1	<u>2,782,923</u>	<u>2,782,923</u>	<u>2,782,923</u>	<u>-</u>
Fund balance, June 30	<u>\$ 2,735,475</u>	<u>\$ 2,712,781</u>	<u>\$ 3,155,682</u>	<u>\$ 442,901</u>

OTHER SUPPLEMENTAL INFORMATION

PENNFIELD SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF REVENUES
YEAR ENDED JUNE 30, 2006

REVENUES

Revenues from local sources	
Current property taxes	\$ 878,645
Interest on investments	56,455
Tuition and fees	1,170
Miscellaneous revenues	<u>22,054</u>
Total revenues from local sources	958,324
Revenues from state sources	
Foundation	12,217,354
At Risk	223,535
Early childhood education	63,104
Special education	352,011
Durant Settlement	15,784
Other grants	<u>3,487</u>
Total revenues from state sources	12,875,275
Revenues from federal sources	
Title I	166,331
Title IIA Improving Teacher Quality	70,260
Technology Literacy	3,103
Professional Development	5,339
Title V LEA Allocation	777
Drug-Free Schools	7,055
Homeland Security	7,666
Hurricane Katrina	<u>40</u>
Total revenues from federal sources	260,571
Revenues from other districts	
Other programs	18,606
Special education - local reimb.	<u>522,244</u>
Total revenues from other districts	<u>540,850</u>
Total revenues	<u><u>\$14,635,020</u></u>

PENNFIELD SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES
YEAR ENDED JUNE 30, 2006

INSTRUCTION

Basic Programs

Pre-school	
Salaries	\$ 55,885
Employee benefits	20,204
Contracted services	8,664
Supplies and materials	<u>1,031</u>
Total pre-school instructional expenditures	85,784

Elementary

Salaries	2,226,358
Employee benefits	898,104
Contracted services	9,910
Supplies and materials	99,990
Capital outlay	<u>5,571</u>
Total elementary instruction expenditures	3,239,933

Middle School

Salaries	1,232,858
Employee benefits	512,393
Contracted services	2,181
Supplies and materials	64,797
Capital outlay	<u>559</u>
Total middle school instruction expenditures	1,812,788

High School

Salaries	1,567,743
Employee benefits	645,850
Contracted services	1,852
Supplies and materials	123,631
Capital outlay	<u>9,723</u>
Total high school instruction expenditures	<u>2,348,799</u>

Total basic programs	7,487,304
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PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2006

INSTRUCTION - Continued

Added Needs

Special education

Salaries	567,473
Employee benefits	223,660
Purchased services	4,992
Supplies and materials	5,904
Capital outlay	<u>823</u>

Total special education instruction expenditures	802,852
---	---------

Compensatory education

Salaries	111,459
Employee benefits	52,072
Purchased services	797
Supplies and materials	<u>783</u>

Total compensatory education instruction expenditures	165,111
--	---------

At Risk education

Salaries	157,871
Employee benefits	58,317
Purchased services	7,237
Supplies and materials	<u>110</u>

Total at risk education instruction expenditures	<u>223,535</u>
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Total added needs	<u>1,191,498</u>
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Total instruction expenditures	8,678,802
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PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued

YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES

Pupil Services

Guidance services

Salaries	224,010
Employee benefits	90,195
Purchased services	609
Supplies and materials	2,074
Capital outlay	<u>-</u>

Total guidance services 316,888

Health services

Supplies	17,149
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Student supervision services

Salaries	120,387
Employee benefits	<u>30,709</u>

Total student supervision services 151,096

Total pupil services 485,133

Instructional Staff Services

Improvement of instruction

Salaries	2,805
Employee benefits	602
Purchased services	<u>8,321</u>

Total improvement of instruction 11,728

Library services

Salaries	162,987
Employee benefits	60,049
Supplies and materials	26,300
Capital outlay	<u>-</u>

Total library expenditures 249,336

Technology services

Salaries	253,075
Employee benefits	93,412
Contracted services	33,204
Supplies and materials	8,995
Capital outlay	<u>69,317</u>

Total technology services 458,003

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES - Continued

YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES - Continued

Instructional Staff Services - continued

Supervision and direction

Salaries	83,391
Employee benefits	35,720
Purchased services	650
Supplies	<u>705</u>

Total supervision	<u>120,466</u>
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Total instructional staff services	839,533
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General Administrative Services

Board of education

Salaries	1,850
Contracted services	42,485
Other	<u>8,146</u>

Total board of education expenditures	52,481
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Executive administration

Salaries	131,756
Employee benefits	43,105
Contracted services	5,280
Supplies	1,562
Capital outlay	422
Other	<u>2,157</u>

Total executive administration expenditures	<u>184,282</u>
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Total general administrative services	236,763
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School Administrative Services

Office of the Principal

Salaries	743,431
Employee benefits	327,136
Contracted services	57,060
Supplies and material	15,365
Capital outlay	-
Other	<u>5,040</u>

Total school administrative expenditures	1,148,032
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PENNFIELD SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENT OF OPERATING EXPENDITURES - Continued
YEAR ENDED JUNE 30, 2006

SUPPORTING SERVICES - Continued

Business Services

Fiscal charges

Salaries	114,165
Employee benefits	45,495
Contracted services	27,847
Supplies and materials	5,659
Capital outlay	466
Other	<u>52,431</u>

Total business services expenditures 246,063

Operation and Maintenance

Operation and maintenance of plant

Salaries	441,821
Employee benefits	228,343
Contracted services	420,770
Supplies and materials	51,534
Capital outlay	<u>67,284</u>

Total operation and maintenance expenditures 1,209,752

Pupil Transportation

Pupil transportation services

Salaries	406,896
Employee benefits	142,927
Contracted services	59,421
Supplies and materials	175,165
Capital outlay	59,349
Other	<u>3,395</u>

Total pupil transportation services 847,153

Other supporting services

Contracted services	<u>26,909</u>
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Total supporting services expenditures 5,039,338

DEBT SERVICE

Principal repayment	26,000
Interest and fiscal charges	<u>888</u>

Total debt service 26,888

OTHER DISTRICTS

Purchased services	<u>44,896</u>
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Total operating expenditures \$ 13,789,924

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 125,723	\$ 3,422	\$ 129,145
Accounts receivable	-	-	-
Due from other governmental units	-	-	-
Due from other funds	77,500	-	77,500
Inventory	10,423	-	10,423
Prepaid expenditures	-	-	-
Total assets	<u>\$ 213,646</u>	<u>\$ 3,422</u>	<u>\$ 217,068</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Accrued payroll	-	-	-
Accrued benefits	-	-	-
Due to other funds	<u>78,158</u>	<u>3,422</u>	<u>81,580</u>
Total liabilities	78,158	3,422	81,580
Fund balances:			
Reserved for prepaid expenditures	-	-	-
Reserved for inventory	10,423	-	10,423
Unreserved:			
Undesignated	<u>125,065</u>	<u>-</u>	<u>125,065</u>
Total fund balances	<u>135,488</u>	<u>-</u>	<u>135,488</u>
Total liabilities and fund balances	<u>\$ 213,646</u>	<u>\$ 3,422</u>	<u>\$ 217,068</u>

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2006

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Total</u>
Revenues:			
Local sources	\$ 278,791	\$ 68,540	\$ 347,331
State sources	25,192	-	25,192
Federal sources	<u>260,565</u>	<u>-</u>	<u>260,565</u>
Total revenues	564,548	68,540	633,088
Expenditures:			
Food services	586,172	-	586,172
Athletics	<u>-</u>	<u>544,328</u>	<u>544,328</u>
Total expenditures	<u>586,172</u>	<u>544,328</u>	<u>1,130,500</u>
Excess (deficiency) of revenues over expenditures	(21,624)	(475,788)	(497,412)
Other Financing Sources (Uses):			
Operating transfers in	<u>-</u>	<u>472,337</u>	<u>472,337</u>
Net change in fund balances	(21,624)	(3,451)	(25,075)
Fund balances, July 1	<u>157,112</u>	<u>3,451</u>	<u>160,563</u>
Fund balances, June 30	<u>\$ 135,488</u>	<u>\$ -</u>	<u>\$ 135,488</u>

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
 FOOD SERVICE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 275,000	\$ 278,791	\$ 3,791
State sources	25,000	25,192	192
Federal sources	<u>260,000</u>	<u>260,565</u>	<u>565</u>
Total revenues	560,000	564,548	4,548
Expenditures:			
Salaries	209,000	211,078	2,078
Employee benefits	54,000	55,408	1,408
Purchased services	28,000	36,730	8,730
Supplies, material and other	275,000	280,639	5,639
Capital outlay	<u>5,000</u>	<u>2,317</u>	<u>(2,683)</u>
Total expenditures	<u>571,000</u>	<u>586,172</u>	<u>15,172</u>
Net change in fund balances	(11,000)	(21,624)	(10,624)
Fund balance - July 1	<u>157,112</u>	<u>157,112</u>	<u>-</u>
Fund balance - June 30	<u>\$ 146,112</u>	<u>\$ 135,488</u>	<u>\$ (10,624)</u>

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
ATHLETIC FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Local sources	\$ 60,000	\$ 68,540	\$ 8,540
Expenditures:			
Salaries	332,923	323,612	(9,311)
Employee benefits	99,418	95,210	(4,208)
Purchased services	15,000	13,551	(1,449)
Supplies, material and other	78,451	111,955	33,504
Capital outlay	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Total expenditures	<u>535,792</u>	<u>544,328</u>	<u>8,536</u>
Excess (deficiency) of revenues over expenditures	(475,792)	(475,788)	4
Other financing sources:			
Operating transfers in	<u>472,341</u>	<u>472,337</u>	<u>(4)</u>
Net change in fund balances	(3,451)	(3,451)	-
Fund balance - July 1	<u>3,451</u>	<u>3,451</u>	<u>-</u>
Fund balance - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

PENNFIELD SCHOOLS
 OTHER SUPPLEMENTAL INFORMATION
 STUDENT ACTIVITIES AGENCY FUND
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 YEAR ENDED JUNE 30, 2006

	Balances			Balances
	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ <u>226,051</u>	\$ <u>368,934</u>	\$ <u>374,193</u>	\$ <u>220,792</u>
<u>LIABILITIES</u>				
Due to student groups	\$ <u>226,051</u>	\$ <u>368,934</u>	\$ <u>374,193</u>	\$ <u>220,792</u>

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
JUNE 30, 2006

2000 SCHOOL BUILDING AND SITE BONDS
(NON-REFUNDED PORTION)

\$ 9,105,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	5.000	\$ 81,000	\$ 400,000	\$ 481,000
2008	5.000	61,000	400,000	461,000
2009	5.125	41,000	400,000	441,000
2010	5.250	<u>20,500</u>	<u>400,000</u>	<u>420,500</u>
Total		<u>\$ 203,500</u>	<u>\$ 1,600,000</u>	<u>\$ 1,803,500</u>

Interest on the bonds of the above issue is payable semi-annually on November 1, and May 1. Principal is payable annually on May 1.

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
JUNE 30, 2006

1998 SCHOOL IMPROVEMENT BONDS \$ 147,808

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	4.76	\$ 2,885	\$ 7,493	\$ 10,378
2008	4.76	2,528	7,851	10,379
2009	4.76	2,154	8,225	10,379
2010	4.76	1,762	8,617	10,379
2011	4.76	1,352	9,027	10,379
2012	4.76	922	9,456	10,378
2013	4.76	<u>465</u>	<u>9,913</u>	<u>10,378</u>
Total		<u>\$ 12,068</u>	<u>\$ 60,582</u>	<u>\$ 72,650</u>

Interest and principal on the bonds of the above issue is payable annually on May 15. As part of the Durant Settlement the annual principal and interest payments are to be made directly by the State of Michigan.

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
JUNE 30, 2006

2004 SCHOOL BUILDING AND SITE BONDS \$ 27,915,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	3.000	\$ 1,250,063	\$ 400,000	\$ 1,650,063
2008	3.000	1,238,063	425,000	1,663,063
2009	3.250	1,225,312	475,000	1,700,312
2010	3.250	1,209,875	525,000	1,734,875
2011	3.500	1,192,813	575,000	1,767,813
2012	3.500	1,172,687	625,000	1,797,687
2013	4.000	1,150,813	675,000	1,825,813
2014	4.000	1,123,812	700,000	1,823,812
2015	4.000	1,095,813	725,000	1,820,813
2016	4.000	1,066,812	775,000	1,841,812
2017	4.125	1,035,813	800,000	1,835,813
2018	4.500	1,002,813	850,000	1,852,813
2019	4.250	964,562	900,000	1,864,562
2020	4.375	926,313	950,000	1,876,313
2021	4.500	884,750	1,000,000	1,884,750
2022	4.500	839,750	1,050,000	1,889,750
2023	5.000	792,500	1,125,000	1,917,500
2024	5.000	736,250	1,175,000	1,911,250
2025	5.000	677,500	1,250,000	1,927,500
2026	5.000	615,000	1,300,000	1,915,000
2027	5.000	550,000	1,350,000	1,900,000
2028	5.000	482,500	1,350,000	1,832,500
2029	5.000	415,000	1,375,000	1,790,000
2030	5.000	346,250	1,375,000	1,721,250
2031	5.000	277,500	1,375,000	1,652,500
2032	5.000	208,750	1,375,000	1,583,750
2033	5.000	140,000	1,400,000	1,540,000
2034	5.000	<u>70,000</u>	<u>1,400,000</u>	<u>1,470,000</u>
Total		<u>\$22,691,314</u>	<u>\$27,300,000</u>	<u>\$49,991,314</u>

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable annually on May 1.

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
JUNE 30, 2006

2005 REFUNDING BONDS

\$ 6,340,000

Balance payable as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007	3.000	\$ 263,350	\$ 35,000	\$ 298,350
2008	3.000	262,300	40,000	302,300
2009	3.500	261,100	40,000	301,100
2010	3.500	259,700	40,000	299,700
2011	4.000	258,300	410,000	668,300
2012	4.000	241,900	410,000	651,900
2013	4.000	225,500	410,000	635,500
2014	4.000	209,100	410,000	619,100
2015	4.250	192,700	410,000	602,700
2016	4.250	175,275	410,000	585,275
2017	4.250	157,850	410,000	567,850
2018	4.250	140,425	410,000	550,425
2019	4.250	123,000	410,000	533,000
2020	4.100	105,575	410,000	515,575
2021	4.150	88,765	410,000	498,765
2022	4.300	71,750	410,000	481,750
2023	4.350	54,120	410,000	464,120
2024	4.400	36,285	410,000	446,285
2025	4.450	<u>18,245</u>	<u>410,000</u>	<u>428,245</u>
Total		<u>\$ 3,145,240</u>	<u>\$ 6,305,000</u>	<u>\$ 9,450,240</u>

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable annually on May 1.

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
Title I - Educationally Deprived	84.010	0615300506	\$ 166,331
Title V LEA allocation	84.298	0602500506	777
Technology Literacy	84.318	0642900506	3,103
Title IIA Teacher Quality	84.367	0605200506	70,260
Hurricane Relief	84.938	064120	<u>40</u>

Total passed through MDE

Passed Through Intermediate
School District:

Drug Free Schools	84.186		7,055
Improvement of Education	84.215		5,339

Total passed through ISD

TOTAL DEPARTMENT OF EDUCATION

Notes:

- 1.*Designates Major Program
2. Dollar threshold used to distinguish between Type A and Type B programs - \$300,000.
3. Expenditures in this schedule are in agreement with amounts reported in the financial statements.
4. The amounts reported on the R7120 reconcile with this schedule.

(continued on next page)

Accrued/ (Deferred) Revenue <u>June 30, 2005</u>	(Memo only) Prior Year <u>Expenditures</u>	<u>Expenditures</u>	<u>Receipts</u>	Accrued/ (Deferred) Revenue <u>June 30, 2006</u>
\$ -		\$ 166,331	\$ 90,311	\$ 76,020
-		777	777	-
-		3,103	-	3,103
-		70,260	47,150	23,110
<u>-</u>		<u>40</u>	<u>-</u>	<u>40</u>
-		240,511	138,238	102,273
-		7,055	7,055	-
<u>-</u>		<u>5,339</u>	<u>3,802</u>	<u>1,537</u>
<u>-</u>		<u>12,394</u>	<u>10,857</u>	<u>1,537</u>
-		252,905	149,095	103,810

PENNFIELD SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
YEAR ENDED June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/ Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
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U.S. DEPARTMENT OF AGRICULTURE

Passed Through State Department
of Education:

Nutrition Cluster

National School Lunch Program	10.555	051950	38,595
		051960	125,762
		061950	34,392
		061960	122,990

National School Lunch Breakfast	10.553	051970	38,525
		061970	37,498

Food Distribution

Entitlement Commodities	10.550		23,081
Bonus Commodities			5,255

TOTAL DEPARTMENT OF AGRICULTURE

U.S DEPARTMENT OF HOMELAND SECURITY

Passed Through Michigan State Police:

2003 State Homeland Security Grant	97.004		7,666
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TOTAL FEDERAL FINANCIAL ASSISTANCE

Accrued/ (Deferred) Revenue June 30, 2005	(Memo only) Prior Year Expenditures	Expenditures	Receipts	Accrued/ (Deferred) Revenue June 30, 2006
-	32,105	6,490	6,490	-
-	102,124	23,638	23,638	-
-		34,392	34,392	-
-		122,990	122,990	-
-		* 187,510	187,510	-
-	31,304	7,221	7,221	-
-		37,498	37,498	-
-		* 44,719	44,719	-
-		23,081	23,081	-
-		5,255	5,255	-
-		* 28,336	28,336	-
-		260,565	260,565	-
-		7,666	7,666	-
\$ -		\$ 521,136	\$ 417,326	\$ 103,810



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education
Pennfield Schools, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pennfield Schools, as of and for the year ended June 30, 2006, which collectively comprise the Pennfield Schools basic financial statements and have issued our report thereon dated October 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered Pennfield Schools internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Pennfield Schools financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Norman & Paulsen, P.C.

October 6, 2006

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Pennfield Schools, Michigan

Compliance - We have audited the compliance of Pennfield Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Pennfield Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Pennfield Schools' management. Our responsibility is to express an opinion on Pennfield Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local governments, and Non-Profit Organizations*. Those standards and OMB circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pennfield Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pennfield Schools' compliance with those requirements.

In our opinion, Pennfield Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrold T. Norman (1941-1982)

Internal Control over Compliance - The management of Pennfield Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pennfield Schools internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Norman J. Paulson, P.C.

October 6, 2006

PENNFIELD SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED June 30, 2006

1. Summary of auditor's results:

- (i) An unqualified opinion was issued on the financial statements.
- (ii) No reportable conditions in internal control were disclosed by the audit of the financial statements.
- (iii) The audit disclosed no noncompliance.
- (iv) No reportable conditions in internal control over major programs were disclosed by the audit.
- (v) An unqualified opinion was issued on Compliance for major programs.
- (vi) No audit findings were disclosed.
- (vii) Major programs: U.S. Department of Agriculture
Nutrition Cluster
Commodities
- (viii) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- (ix) Pennfield Schools did not qualify as a low-risk auditee.

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS.

NONE

3. Findings and questioned costs for Federal awards.

NONE